



# ***STATE OF NEW HAMPSHIRE***

## ***Unrestricted Revenue Financial Review***

***2004-2005 Biennium***

**Prepared by the Department of Administrative Services**

**Donald S. Hill, Commissioner**

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## Summary

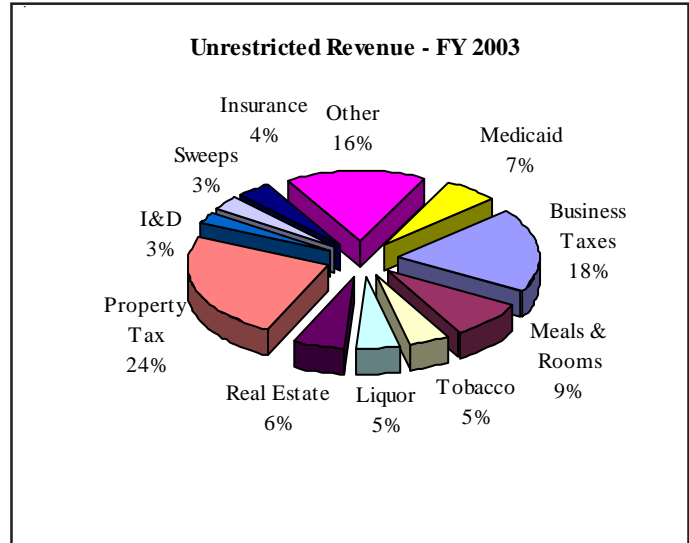
In accordance with RSA 9:5 II, this report highlights revenue performance through the first half of fiscal year 2004 and also provides for an updated estimate of the State's unrestricted revenues for the 2004 – 2005 biennium. Revenue projections have been included for the General, Education, Highway, and Fish and Game Funds. This report also includes an analysis of the major General and Education Funds unrestricted revenue categories and includes the following information:

- A history of the tax including the current rates;
- A description of when collections are due; and
- Line charts depicting the monthly flow of actual revenue for fiscal 2003, plan for fiscal 2004, and revenue collected year to date for fiscal 2004.

(Note that the plan represents a monthly allocation of the original budget, as adopted by the legislature).

Restricted revenue is not included in this report because the majority of restricted revenue is primarily grant money that is determined by the level of expenditures. The balance of restricted revenue comes from numerous sources that need to be examined individually throughout each budgeting cycle. Further, the projections assume that the existing authorized tax rates will remain at current authorized levels. Any change in the tax rates will have an impact on the revenue projections.

Unrestricted revenue for the General and Education Funds, for the six month period ending December 31, 2003 was \$791.0 million, which was \$12.7 million short of plan, but \$62.0 million above prior year. It is anticipated that the combined General and Education Funds unrestricted revenue for fiscal 2004 will increase 3.2% over the prior year. Growth over the prior year can be attributed to increased Medicaid revenues and strong performance in the Real Estate Transfer and Meals and Rooms Taxes. However, due to the phase-out of the Estate and Legacy Tax, the reduced Statewide Property Tax rate, and the one-time nature of the Flexible Grant payments, the total unrestricted revenue for fiscal 2005 is projected to decrease by 4.4% below fiscal 2004.



### Highlights of Revised Estimates for FY04 & 05:

The revised estimates for fiscal 2004 as compared to plan show little change in total revenue in fiscal 2004 and a \$22.8 increase over plan for fiscal 2005. Although, revenue collections for several categories are showing improvements as compared to plan, there are offsetting shortfalls.

The revised projections assume **Business Tax** collections will come in on plan for both FY 2004 and 2005, increasing modestly by 2.8% per year. **Meals and Rooms Tax** is also projected to hit plan which is expected to yield revenue growth just over 4% per year. As the economy gains strength, we anticipate that collections will exceed estimates although it is difficult to predict the timing of when this might occur.

The main increases over plan, for both FY 2004 and 2005, can be attributed to the **Real Estate Transfer Tax**. Spurred on by record low interest rates and New Hampshire's close proximity to the Boston high-priced real estate market, tax collections for the first half of fiscal year 2004 have exceeded plan by \$7.8 million. Growth is expected to continue for the remainder of fiscal year 2004 and will flatten out in fiscal year 2005.

Other strong revenue performers as compared to the plan include the Tobacco Tax, Insurance Tax and Sweepstake revenue. Due to our tax advantage as compared to our neighboring states, the **Tobacco Tax** continues to exceed expectations and is projected to increase 5% per year. After factoring in the loss of the **Insurance Premium Tax** due to the State moving to self-insurance for health, this tax is projected to increase 5% in fiscal year 2004 and 3% in fiscal year 2005. **Sweepstakes Revenue** has been strong year to date due to three large Powerball jackpots in the first half of the year.

Due to record low interest rates, the **Interest and Dividends tax** is expected to continue to lag plan. The impact on state collections due to the change in federal taxation of dividends won't be fully understood until the Department of Revenue has a chance to study April 2004 returns.

**Medicaid Enhancement Revenues** are expected to exceed plan by \$8.8 million in fiscal year 2004 due to the carryover of the Proportionate Share billing from fiscal year 2003. Based upon recent positive news from the Governor's meeting with Federal officials, it is anticipated that the remainder of the various Medicaid Enhancement activities on average will come in on plan.

Finally, revenue from the **Flexible Grant**, which was originally budgeted in fiscal 2004, at \$50 million, was actually recorded at \$25 million in FY 03 and \$25 million in FY 04. Since this is a one-time event, no monies are budgeted for fiscal 2005.

**GENERAL FUND AND EDUCATION FUND**  
**SIX MONTH ACTUAL VS. LEGISLATIVE ESTIMATE**  
**FY 04 YTD (In Millions)**

	Six months ended 12-31-03							
	General		Education		Total			
	Actual	Legislative Estimate	Actual	Legislative Estimate	Actual	Legislative Estimate	Actual vs. Estimate	% Increase (Decrease)
Business Profits Tax	\$ 45.7	\$ 72.5	\$ 20.2	\$ 20.2	\$ 65.9	\$ 92.7	\$ (26.8)	-28.9%
Business Enterprise Tax	44.2	21.8	58.4	58.4	102.6	80.2	22.4	27.9%
<b>Subtotal</b>	<b>89.9</b>	<b>94.3</b>	<b>78.6</b>	<b>78.6</b>	<b>168.5</b>	<b>172.9</b>	<b>(4.4)</b>	<b>-2.5%</b>
Meals & Rooms Tax	98.5	97.9	4.0	3.8	102.5	101.7	0.8	0.8%
Tobacco Tax	36.7	35.6	15.1	14.5	51.8	50.1	1.7	3.4%
Liquor Sales and Distribution	59.1	59.0	-	-	59.1	59.0	0.1	0.2%
Interest & Dividends Tax	13.2	16.3	-	-	13.2	16.3	(3.1)	-19.0%
Insurance Tax	37.5	35.9	-	-	37.5	35.9	1.6	4.5%
Communications Tax	32.5	33.3	-	-	32.5	33.3	(0.8)	-2.4%
Real Estate Transfer Tax	49.6	44.3	24.8	22.3	74.4	66.6	7.8	11.7%
Estate & Legacy Tax	12.4	12.6	-	-	12.4	12.6	(0.2)	-1.6%
Court Fines & Fees	13.9	14.3	-	-	13.9	14.3	(0.4)	-2.8%
Securities Revenue	2.0	2.7	-	-	2.0	2.7	(0.7)	-25.9%
Utility Tax	3.3	3.1	-	-	3.3	3.1	0.2	6.5%
Board & Care Revenue	5.9	4.9	-	-	5.9	4.9	1.0	20.4%
Beer Tax	6.7	6.9	-	-	6.7	6.9	(0.2)	-2.9%
Racing Revenue	2.0	1.8	-	-	2.0	1.8	0.2	11.1%
Flexible Grant	25.0	50.0	-	-	25.0	50.0	(25.0)	-50.0%
Other	22.7	21.4	-	-	22.7	21.4	1.3	6.1%
Transfers from Sweepstakes	-	-	31.4	29.0	31.4	29.0	2.4	8.3%
Tobacco Settlement	-	-	0.4	-	0.4	-	0.4	100.0%
Utility Property Tax	-	-	7.4	9.6	7.4	9.6	(2.2)	-22.9%
State Property Tax Not Retained Locally	-	-	-	-	-	-	-	-
State Property Tax Retained Locally	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>510.9</b>	<b>534.3</b>	<b>161.7</b>	<b>157.8</b>	<b>672.6</b>	<b>692.1</b>	<b>(19.5)</b>	<b>-2.8%</b>
Net Medicaid Enhancement Revenue	104.7	97.1	-	-	104.7	97.1	7.6	7.8%
Recoveries	5.5	6.3	-	-	5.5	6.3	(0.8)	-12.7%
<b>Subtotal</b>	<b>621.1</b>	<b>637.7</b>	<b>161.7</b>	<b>157.8</b>	<b>782.8</b>	<b>795.5</b>	<b>(12.7)</b>	<b>-1.6%</b>
Other Medicaid Enhancement Revenue to Fund Net Approp.	8.2	8.2	-	-	8.2	8.2	-	0.0%
<b>Total</b>	<b>\$ 629.3</b>	<b>\$ 645.9</b>	<b>\$ 161.7</b>	<b>\$ 157.8</b>	<b>\$ 791.0</b>	<b>\$ 803.7</b>	<b>\$ (12.7)</b>	<b>-1.6%</b>

**GENERAL FUND AND EDUCATION FUND  
SUMMARY REVENUE PROJECTIONS  
LEGISLATIVE VERSUS ADMINISTRATIVE SERVICES ESTIMATES  
(In Millions)**

	<b>FY 03</b>	<b>FY 04</b>			<b>FY 05</b>			<b>Annual Increases</b>	
	Actual General & Education	Legislative Estimate	Admin Services Estimate	Difference	Legislative Estimate	Admin Services Estimate	Difference		
								<b>FY 04 vs 03</b>	<b>FY 05 vs 04</b>
Business Profits Tax	\$ 174.8	\$ 228.6	\$ 228.6	\$ -	\$ 234.9	\$ 234.9	\$ -	30.8%	2.8%
Business Enterprise Tax	218.0	175.2	175.2	-	180.1	180.1	-	-19.6%	2.8%
<b>Subtotal</b>	<b>392.8</b>	<b>403.8</b>	<b>403.8</b>	<b>-</b>	<b>415.0</b>	<b>415.0</b>	<b>-</b>	<b>2.8%</b>	<b>2.8%</b>
Meals & Rooms Tax	175.4	183.5	183.5	-	191.2	191.2	-	4.6%	4.2%
Tobacco Tax	94.1	94.9	98.8	3.9	94.9	103.7	8.8	5.0%	5.0%
Liquor Sales and Distribution	99.0	108.1	108.1	-	114.5	114.5	-	9.2%	5.9%
Interest & Dividends Tax	55.1	61.0	58.0	(3.0)	64.0	60.0	(4.0)	5.3%	3.4%
Insurance Tax	82.2	82.9	86.3	3.4	85.6	88.9	3.3	5.0%	3.0%
Communications Tax	62.4	66.5	64.5	(2.0)	69.0	67.0	(2.0)	3.4%	3.9%
Real Estate Transfer Tax	118.2	120.5	135.0	14.5	123.5	135.0	11.5	14.2%	0.0%
Estate & Legacy Tax	59.1	19.4	13.4	(6.0)	11.4	11.4	-	-77.3%	-14.9%
Court Fines & Fees	22.1	25.9	25.9	-	25.9	25.9	-	17.2%	0.0%
Securities Revenue	25.8	26.7	26.7	-	28.0	28.0	-	3.5%	4.9%
Utility Tax	7.1	6.1	7.5	1.4	6.2	8.0	1.8	5.6%	6.7%
Board & Care Revenue	11.2	10.8	10.8	-	11.4	11.4	-	-3.6%	5.6%
Beer Tax	12.3	12.9	12.9	-	13.2	13.2	-	4.9%	2.3%
Racing Revenue	4.0	3.5	3.5	-	3.5	3.5	-	-12.5%	0.0%
Flexible Grant	25.0	50.0	25.0	(25.0)	-	-	-	0.0%	-100.0%
Other	52.6	52.9	54.0	1.1	54.4	56.8	2.4	2.7%	5.2%
Transfers from Sweepstakes	66.6	69.0	72.0	3.0	71.0	72.0	1.0	8.1%	0.0%
Tobacco Settlement	45.9	39.6	39.6	-	39.6	39.6	-	-13.7%	0.0%
Utility Property Tax	18.8	19.0	19.0	-	20.5	20.5	-	1.1%	7.9%
State Property Tax Not Retained Locally	32.7	29.9	29.9	-	-	-	-	-8.6%	-100.0%
State Property Tax Retained Locally	453.0	443.4	443.4	-	363.4	363.4	-	-2.1%	-18.0%
<b>Subtotal</b>	<b>1,915.4</b>	<b>1,930.3</b>	<b>1,921.6</b>	<b>(8.7)</b>	<b>1,806.2</b>	<b>1,829.0</b>	<b>22.8</b>	<b>0.3%</b>	<b>-4.8%</b>
Net Medicaid Enhancement Revenue	117.0	140.9	149.7	8.8	146.6	146.6	-	27.9%	-2.1%
Recoveries	-	13.3	13.3	-	15.8	15.8	-	0.0%	18.8%
<b>Subtotal</b>	<b>2,032.4</b>	<b>2,084.5</b>	<b>2,084.6</b>	<b>0.1</b>	<b>1,968.6</b>	<b>1,991.4</b>	<b>22.8</b>	<b>2.6%</b>	<b>-4.5%</b>
Other Medicaid Enhancement Revenue to Fund Net Approp.	16.6	29.3	29.3	-	22.8	22.8	-	76.5%	-22.2%
<b>Total</b>	<b>\$ 2,049.0</b>	<b>\$ 2,113.8</b>	<b>\$ 2,113.9</b>	<b>\$ 0.1</b>	<b>\$ 1,991.4</b>	<b>\$ 2,014.2</b>	<b>\$ 22.8</b>	<b>3.2%</b>	<b>-4.7%</b>

Shaded- Represents changes in tax definition (estate and legacy), or rates (property tax), or one time revenue (flexible grant).

**GENERAL FUND AND EDUCATION FUND  
DETAIL REVENUE PROJECTIONS  
LEGISLATIVE VERSUS ADMINISTRATIVE SERVICES ESTIMATE  
FY 04 (In Millions)**

	FY 04						
	General		Education		Total		
	Legislative Estimate	Admin Services Estimate	Legislative Estimate	Admin Services Estimate	Legislative Estimate	Admin Services Estimate	Difference
Business Profits Tax	\$ 188.3	\$ 188.3	\$ 40.3	\$ 40.3	\$ 228.6	\$ 228.6	\$ -
Business Enterprise Tax	58.4	58.4	116.8	116.8	175.2	175.2	-
<b>Subtotal</b>	<b>246.7</b>	<b>246.7</b>	<b>157.1</b>	<b>157.1</b>	<b>403.8</b>	<b>403.8</b>	<b>-</b>
Meals & Rooms Tax	176.7	176.7	6.8	6.8	183.5	183.5	-
Tobacco Tax	67.5	70.3	27.4	28.5	94.9	98.8	3.9
Liquor Sales and Distribution	108.1	108.1	-	-	108.1	108.1	-
Interest & Dividends Tax	61.0	58.0	-	-	61.0	58.0	(3.0)
Insurance Tax	82.9	86.3	-	-	82.9	86.3	3.4
Communications Tax	66.5	64.5	-	-	66.5	64.5	(2.0)
Real Estate Transfer Tax	80.3	90.0	40.2	45.0	120.5	135.0	14.5
Estate & Legacy Tax	19.4	13.4	-	-	19.4	13.4	(6.0)
Court Fines & Fees	25.9	25.9	-	-	25.9	25.9	-
Securities Revenue	26.7	26.7	-	-	26.7	26.7	-
Utility Tax	6.1	7.5	-	-	6.1	7.5	1.4
Board & Care Revenue	10.8	10.8	-	-	10.8	10.8	-
Beer Tax	12.9	12.9	-	-	12.9	12.9	-
Racing Revenue	3.5	3.5	-	-	3.5	3.5	-
Flexible Grant	50.0	25.0	-	-	50.0	25.0	(25.0)
Other	52.9	54.0	-	-	52.9	54.0	1.1
Transfers from Sweepstakes	-	-	69.0	72.0	69.0	72.0	3.0
Tobacco Settlement	-	-	39.6	39.6	39.6	39.6	-
Utility Property Tax	-	-	19.0	19.0	19.0	19.0	-
State Property Tax Not Retained Locally	-	-	29.9	29.9	29.9	29.9	-
State Property Tax Retained Locally	-	-	443.4	443.4	443.4	443.4	-
<b>Subtotal</b>	<b>1,097.9</b>	<b>1,080.3</b>	<b>832.4</b>	<b>841.3</b>	<b>1,930.3</b>	<b>1,921.6</b>	<b>(8.7)</b>
Net Medicaid Enhancement Revenue	140.9	149.7	-	-	140.9	149.7	8.8
Recoveries	13.3	13.3	-	-	13.3	13.3	-
<b>Subtotal</b>	<b>1,252.1</b>	<b>1,243.3</b>	<b>832.4</b>	<b>841.3</b>	<b>2,084.5</b>	<b>2,084.6</b>	<b>0.1</b>
Other Medicaid Enhancement Revenue to Fund Net Approp.	29.3	29.3	-	-	29.3	29.3	-
<b>Total</b>	<b>\$ 1,281.4</b>	<b>\$ 1,272.6</b>	<b>\$ 832.4</b>	<b>\$ 841.3</b>	<b>\$ 2,113.8</b>	<b>\$ 2,113.9</b>	<b>0.1</b>

**GENERAL FUND AND EDUCATION FUND  
DETAIL REVENUE PROJECTIONS  
LEGISLATIVE VERSUS ADMINISTRATIVE SERVICES ESTIMATE  
FY 05 (In Millions)**

	FY 05						
	General		Education		Total		
	Legislative Estimate	Admin Services Estimate	Legislative Estimate	Admin Services Estimate	Legislative Estimate	Admin Services Estimate	Difference
Business Profits Tax	\$ 193.4	\$ 193.4	\$ 41.5	\$ 41.5	\$ 234.9	\$ 234.9	\$ -
Business Enterprise Tax	60.0	60.0	120.1	120.1	180.1	180.1	-
<b>Subtotal</b>	<b>253.4</b>	<b>253.4</b>	<b>161.6</b>	<b>161.6</b>	<b>415.0</b>	<b>415.0</b>	<b>-</b>
Meals & Rooms Tax	184.3	184.3	6.9	6.9	191.2	191.2	-
Tobacco Tax	67.5	73.8	27.4	29.9	94.9	103.7	8.8
Liquor Sales and Distribution	114.5	114.5	-	-	114.5	114.5	-
Interest & Dividends Tax	64.0	60.0	-	-	64.0	60.0	(4.0)
Insurance Tax	85.6	88.9	-	-	85.6	88.9	3.3
Communications Tax	69.0	67.0	-	-	69.0	67.0	(2.0)
Real Estate Transfer Tax	82.3	90.0	41.2	45.0	123.5	135.0	11.5
Estate & Legacy Tax	11.4	11.4	-	-	11.4	11.4	-
Court Fines & Fees	25.9	25.9	-	-	25.9	25.9	-
Securities Revenue	28.0	28.0	-	-	28.0	28.0	-
Utility Tax	6.2	8.0	-	-	6.2	8.0	1.8
Board & Care Revenue	11.4	11.4	-	-	11.4	11.4	-
Beer Tax	13.2	13.2	-	-	13.2	13.2	-
Racing Revenue	3.5	3.5	-	-	3.5	3.5	-
Flexible Grant	-	-	-	-	-	-	-
Other	54.4	56.8	-	-	54.4	56.8	2.4
Transfers from Sweepstakes	-	-	71.0	72.0	71.0	72.0	1.0
Tobacco Settlement	-	-	39.6	39.6	39.6	39.6	-
Utility Property Tax	-	-	20.5	20.5	20.5	20.5	-
State Property Tax Not Retained Locally	-	-	-	-	-	-	-
State Property Tax Retained Locally	-	-	363.4	363.4	363.4	363.4	-
<b>Subtotal</b>	<b>1,074.6</b>	<b>1,090.1</b>	<b>731.6</b>	<b>738.9</b>	<b>1,806.2</b>	<b>1,829.0</b>	<b>22.8</b>
Net Medicaid Enhancement Revenue	146.6	146.6	-	-	146.6	146.6	-
Recoveries	15.8	15.8	-	-	15.8	15.8	-
<b>Subtotal</b>	<b>1,237.0</b>	<b>1,252.5</b>	<b>731.6</b>	<b>738.9</b>	<b>1,968.6</b>	<b>1,991.4</b>	<b>22.8</b>
Other Medicaid Enhancement Revenue to Fund Net Approp.	22.8	22.8	-	-	22.8	22.8	-
<b>Total</b>	<b>\$ 1,259.8</b>	<b>\$ 1,275.3</b>	<b>\$ 731.6</b>	<b>\$ 738.9</b>	<b>\$ 1,991.4</b>	<b>\$ 2,014.2</b>	<b>22.8</b>

**HIGHWAY FUND**  
**SIX MONTH ACTUAL VS. LEGISLATIVE ESTIMATE**  
**FY 04 YTD (In Millions)**

	Six months ended 12-31-03			
	Actual	Legislative Estimate	Actual vs. Estimate	% Increase (Decrease)
Gasoline Road Toll	\$ 68.1	\$ 65.5	\$ 2.6	4.0%
Miscellaneous	4.3	2.9	1.4	48.3%
<b>Motor Vehicle Fees</b>				
MV Registrations	32.5	32.1	0.4	1.2%
MV Operators	6.1	7.5	(1.4)	-18.7%
Inspection Station Fees	1.8	1.6	0.2	12.5%
MV Misc Fees	1.9	2.5	(0.6)	-24.0%
Certificate of Title	2.9	1.6	1.3	81.3%
Total Fees	45.2	45.3	(0.1)	-0.2%
<b>Total</b>	<b>\$ 117.6</b>	<b>\$ 113.7</b>	<b>\$ 3.9</b>	<b>3.4%</b>

**LEGISLATIVE VERSUS ADMINISTRATIVE SERVICES ESTIMATES**  
**(In Millions)**

	FY 03	FY 04			FY 05		
	Actual	Legislative Estimate	Admin Services Estimate	Difference	Legislative Estimate	Admin Services Estimate	Difference
Gasoline Road Toll	\$ 124.2	\$ 125.1	\$ 125.1	\$ -	\$ 127.0	\$ 127.0	\$ -
Miscellaneous	4.7	5.5	5.5	-	6.1	6.1	-
<b>Motor Vehicle Fees</b>							
MV Registrations	62.3	64.5	64.5	-	66.5	66.5	-
MV Operators	12.9	15.2	15.2	-	15.5	15.5	-
Inspection Station Fees	2.3	3.0	3.0	-	2.8	2.8	-
MV Misc Fees	4.6	5.1	5.1	-	5.1	5.1	-
Certificate of Title	5.7	3.5	3.5	-	3.8	3.8	-
Total Fees	87.8	91.3	91.3	-	93.7	93.7	-
<b>Total</b>	<b>\$ 216.7</b>	<b>\$ 221.9</b>	<b>\$ 221.9</b>	<b>\$ -</b>	<b>\$ 226.8</b>	<b>\$ 226.8</b>	<b>\$ -</b>



**FISH AND GAME FUND**  
**SIX MONTH ACTUAL VS. LEGISLATIVE ESTIMATE**  
**FY 04 YTD (In Millions)**

	Six months ended 12-31-03			
	Actual	Legislative Estimate	Actual vs. Estimate	% Increase (Decrease)
Fish and Game Licenses	\$ 4.0	\$ 4.1	\$ (0.1)	-2.4%
Fines and Penalties	0.1	0.1	-	0.0%
Misc Sales	0.1	0.2	(0.1)	-50.0%
Federal Recov Indirect Costs	0.3	0.4	(0.1)	-25.0%
<b>Total</b>	<b>\$ 4.5</b>	<b>\$ 4.8</b>	<b>\$ (0.3)</b>	<b>-6.2%</b>

**SUMMARY REVENUE PROJECTIONS**  
**LEGISLATIVE VERSUS ADMINISTRATIVE SERVICES ESTIMATES**  
**(In Millions)**

	FY 03	FY 04			FY 05		
	Actual	Legislative Estimate	Admin Services Estimate	Difference	Legislative Estimate	Admin Services Estimate	Difference
Fish and Game Licenses	\$ 7.8	\$ 8.3	\$ 8.3	\$ -	\$ 8.3	\$ 8.3	\$ -
Fines and Penalties	0.1	0.1	0.1	-	0.1	0.1	-
Misc Sales	0.5	0.5	0.5	-	0.5	0.5	-
Federal Recov Indirect Costs	0.5	0.7	0.7	-	0.7	0.7	-
<b>Total</b>	<b>\$ 8.9</b>	<b>\$ 9.6</b>	<b>\$ 9.6</b>	<b>\$ -</b>	<b>\$ 9.6</b>	<b>\$ 9.6</b>	<b>\$ -</b>

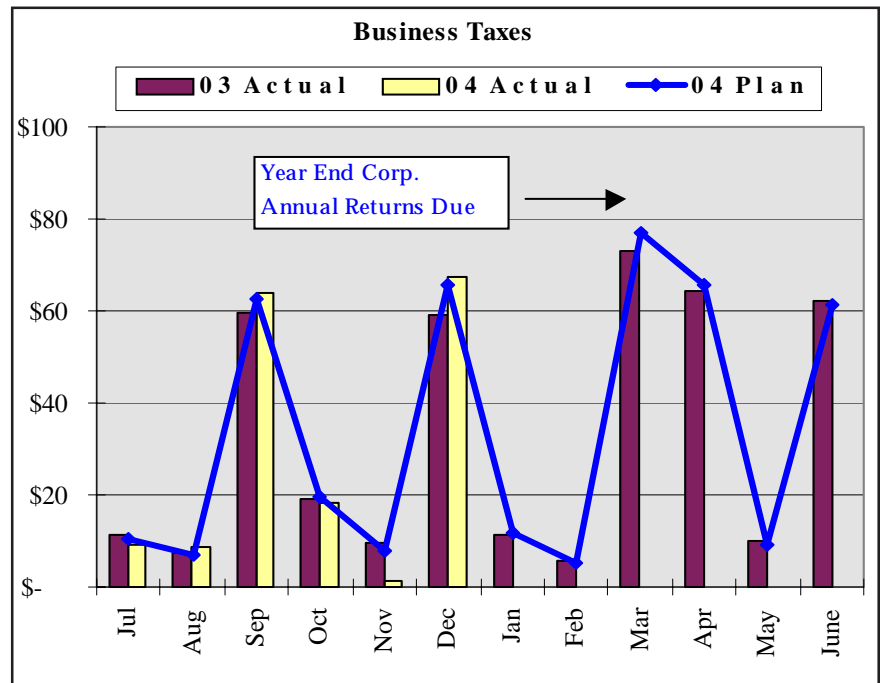
## Unrestricted Revenue Category Analysis

### BUSINESS TAXES

Business taxes are comprised of the Business Profits Tax (BPT) and the Business Enterprise Tax (BET). The BPT is levied on business entities deriving gross business profits from activities conducted in the State. The BET is assessed on the total of wages paid to employees, interest paid on debt, and dividends paid to shareholders. For multi-state businesses, income is apportioned using a three factor weighting formula with sales being double weighted. Due to the combined estimated payment for BPT and BET, it is not possible to accurately measure the individual effects of each tax at the time of collection.

Businesses are required to make estimated quarterly payments during the year, with final returns filed annually. Estimates are due in the 4th, 6th, 9th and 12th month of the entity's fiscal year. Corporations file their annual returns in the 3rd month following their fiscal year end and non-corporations file their annual returns in the 4th month following their fiscal year end. Taxpayers can receive an automatic 7 month extension as long as the tax is paid when due. Corporations receive a credit on their BPT for an amount equal to their BET liability.

The BPT and BET were both increased effective July 1, 1999 and again July 1, 2001. BPT increased from 7% to 8.5%, and BET increased from .25% to .75%. Revenues generated from these tax increases are earmarked for the Education Trust Fund and are transferred quarterly.

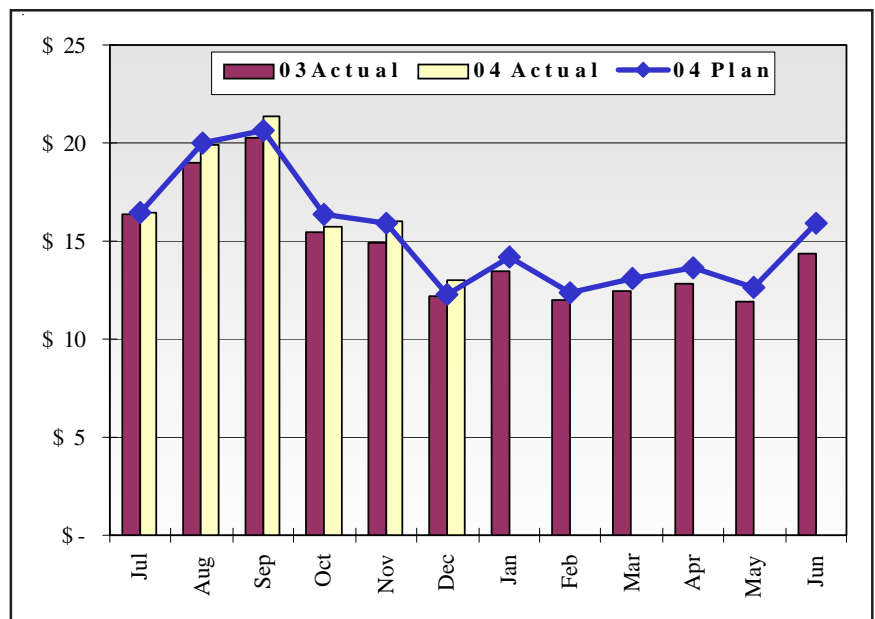


### MEALS AND ROOMS TAX

The meals and rooms tax is levied on charges by hotels, motels, restaurants, and other eating establishments. The tax, levied at a rate of 8% of the charges, is paid to the state by the 15th of the month following collection. Effective July 1, 1999, the meals and rooms tax was extended to cover rental cars. The taxes collected from rental cars have been earmarked for the Education Trust Fund.

On average, revenue generated from the meals portion of the tax, accounts for 80% of the revenue from this category. Taxable activity from Hillsboro and Rockingham counties represent over 56% of this tax.

In fiscal year 2003, \$6.7 million of revenue was received from rental cars. Approximately 50% of the collections from the rental car tax are generated from rentals at the Manchester Airport.

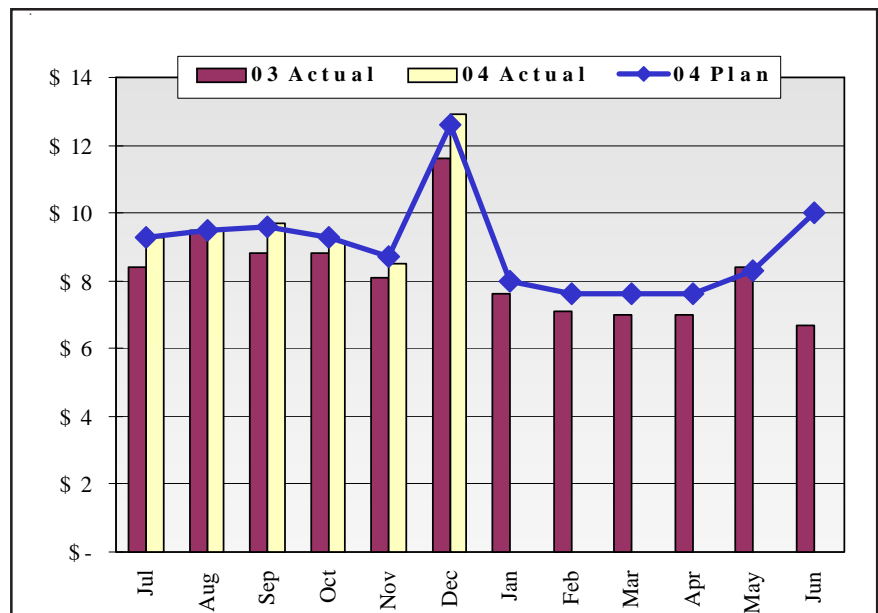


## Category Analysis (Continued)

### LIQUOR SALES AND DISTRIBUTION

By statute, all liquor sold in New Hampshire must be sold through a sales and distribution system operated by the State Liquor Commission. Liquor under direct state control includes wine and spirits. The Commission is directed by statute to set liquor prices at levels sufficient to cover all operating costs of the Commission and state liquor stores, with a profit margin to the state. The Commission operates 72 stores throughout the state.

During the year, revenues are credited to the Liquor Commission Enterprise Fund for accounting purposes, however the cash flow from operations is unrestricted and deposited into the state's pooled bank accounts.



### TOBACCO TAX AND SETTLEMENT

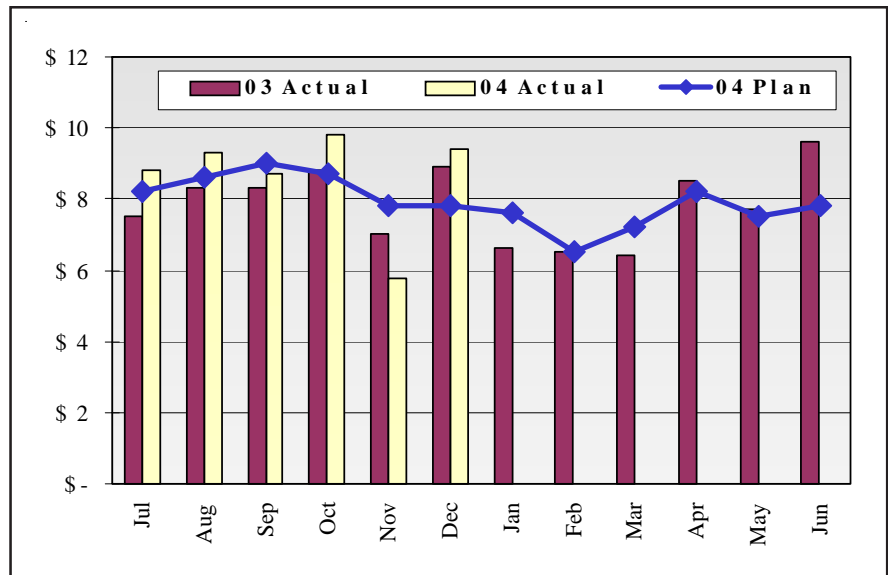
#### Tobacco Tax

Effective July 6, 1999, the tobacco tax was increased by 15 cents to 52 cents per pack of cigarettes. The increase, 28.8%, has been earmarked for the Education Trust Fund (ETF). The transfer to the ETF for the previous months sales are deposited within the first week of the following month. The chart depicts the activity for the tobacco tax only.

#### Settlement

In 1998 NH joined the nationwide tobacco lawsuit. The state's annual payment received in April is estimated at \$39.6 million for FY04. Previously in accordance with Ch 212, Laws of 2000, the first \$3 million was deposited as restricted revenue in the Tobacco Prevention Fund. The next \$40 million deposited in the ETF and the balance deposited in the General Fund. However, during the last budget session, Ch 319:173,L'03, the transfer to the Tobacco Prevention Fund was suspended for the biennium.

The total amounts received from the settlement over the last few years were: \$54.2 million in FY00, \$41.7 million in FY01, \$48.7 million in FY02, and \$48.9 million in FY03.



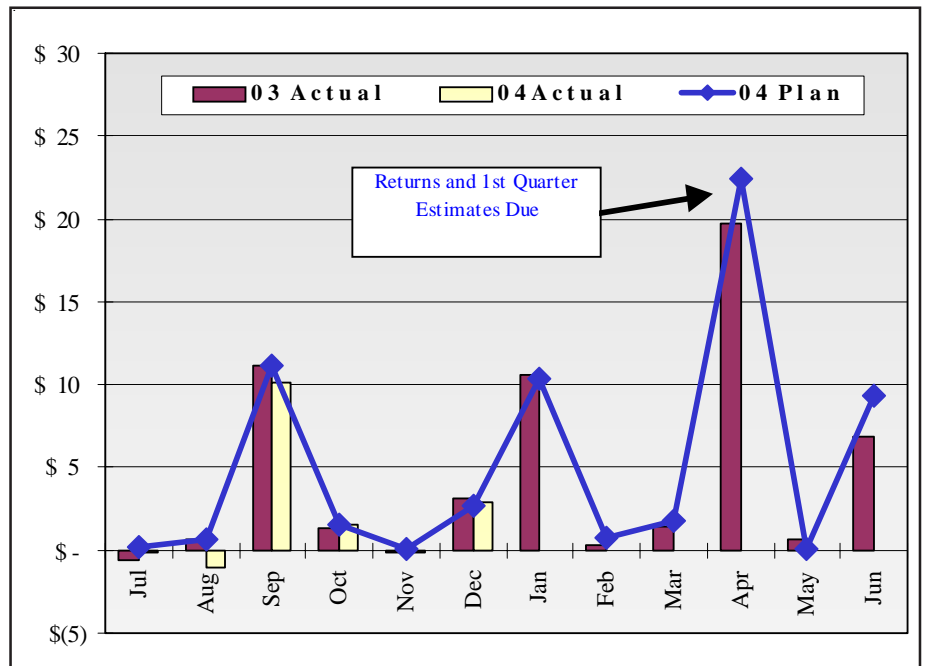
## Category Analysis (Continued)

### INTEREST AND DIVIDENDS TAX

Interest and dividends tax is imposed at 5.0% of income received from interest and dividends. In order to be subject to the tax, individuals must have at least \$2,400 of interest and dividend income and joint filers must have at least \$4,800. Capital gains are not subject to the tax. Annual tax returns are due on April 15th. Estimated tax payments are required to be paid on a quarterly basis during the calendar year.

*Pending Litigation: Smith, et al. v. Department of Revenue Administration*

A consolidated action, charged against DRA in which the taxpayers challenged the constitutionality of the interest and dividends tax law in effect from 1989 through June 30, 1994 was tried in the Merrimack County Superior Court in June 2000. That trial resulted in a judgment rejecting the Plaintiffs' broad claims for in excess of \$100 million and ordered the state to provide Plaintiffs with a refund of taxes paid on interest and dividends received from out-of-state instruments *only*. After several appeals, on November 25, 2002, a decision was reached in that the State will refund approximately \$3.0 million. The refunds are expected to occur beginning in January 2004.

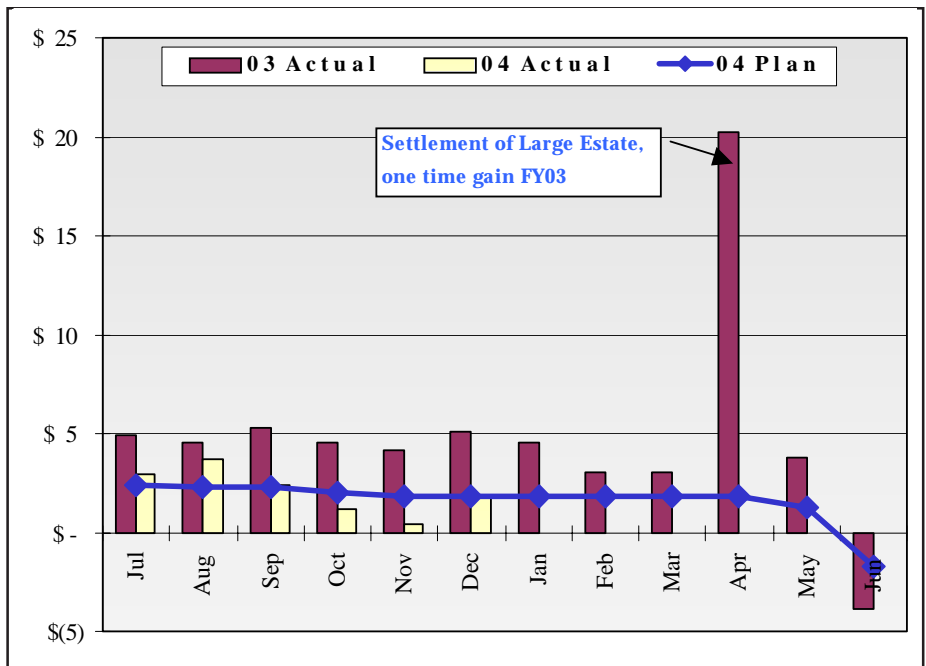


### ESTATE AND LEGACY TAXES

Legacy and succession taxes, assessed separately from the estate tax, are imposed at the rate of 18% on the actual market value of all real and personal property in the state passing by will, intestate succession or in contemplation of death. Property passing to a spouse, lineal ascendants and descendants, government and charitable organizations are exempt from the tax. The filing due date is nine months after the date of death. Ch 232:14 II, Laws of 2002 repealed RSA 86 for the legacy and succession tax, effective for all deaths after December 31, 2002.

Estate taxes are imposed on transfers of estates that are subject to federal estate tax. The amount of the tax equals the maximum allowable federal estate tax credit. In addition, the state also imposes a tax equal to 2% of the value of the New Hampshire personal property belonging to persons not domiciled in the state upon transfer to the executor.

The monthly revenue for June 2004, is projected to be negative, due to the decrease in monthly collections and a large swing in year-end receivables, as a result of the phase-out of the tax. In FY03 the year-end receivable was \$10 million while the projected receivable at June 30, 2004 is \$3 million.



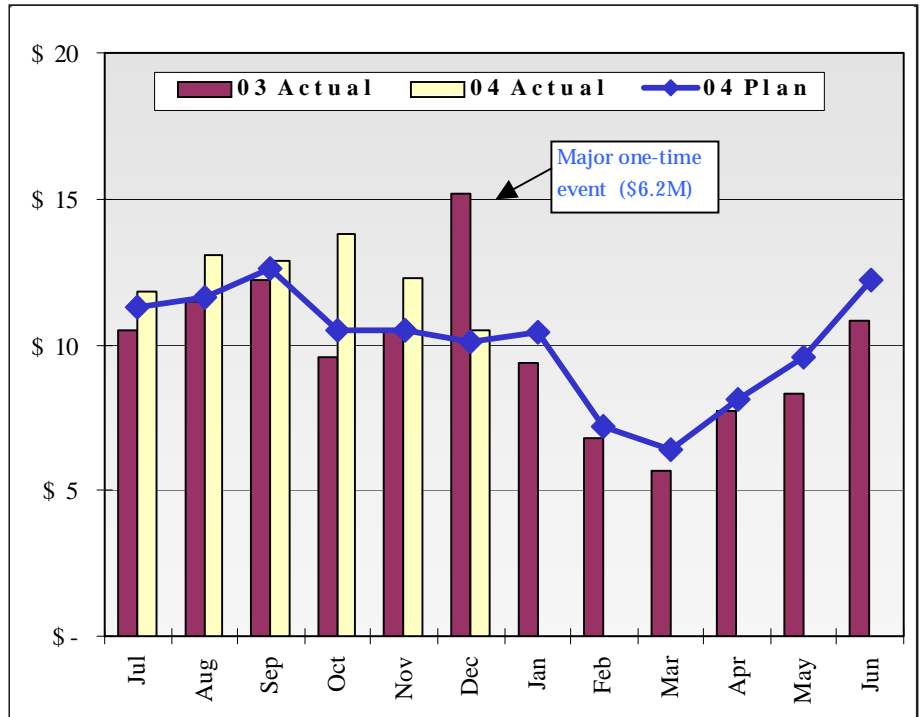
Amounts in Millions

## Category Analysis (Continued)

### REAL ESTATE TRANSFER TAX

The real estate transfer tax is assessed on the transfer of real property and is payable by both the buyer and the seller. As of July 1, 1999, the tax rate was increased by \$2.50 to \$7.50 per \$1,000 of the selling price of the property. The tax is remitted to the State by the 10th day of the month following collection by the counties. Monies from the tax increase are earmarked for the Education Trust Fund.

In accordance with Ch 158:27, Laws of 2001, effective July 1, 2001 the tax was extended to cover transfers of property related to business sales.

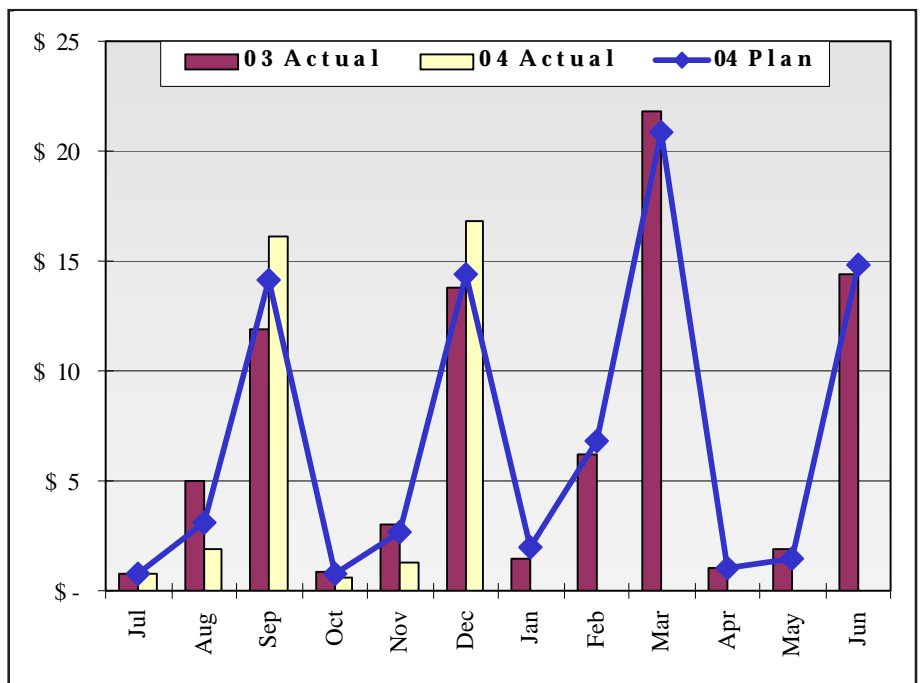


### INSURANCE TAX

Insurance tax is equal to 2% of premiums on policies that insure risks within the State. The tax also applies to certain nonprofit health insurers and dental insurers. Annually, on March 15, authorized insurers are required to file a report showing direct premiums and other insurance related items. The tax payment (final return) less any estimated payments accompanies the report. Estimated tax payments are required to be paid quarterly during the year, due by the 15th of each quarter.

Ch 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs.

Effective October 1, 2003 the State contracted with Cigna Health Care to administer the state's health care program for active and retired state employees. Under the traditional insurance format, approximately \$125 million would have been paid in premiums in FY04 that would have generated premium taxes of \$2.5 million. This loss of revenue was factored into the budget estimates.



Amounts in Millions

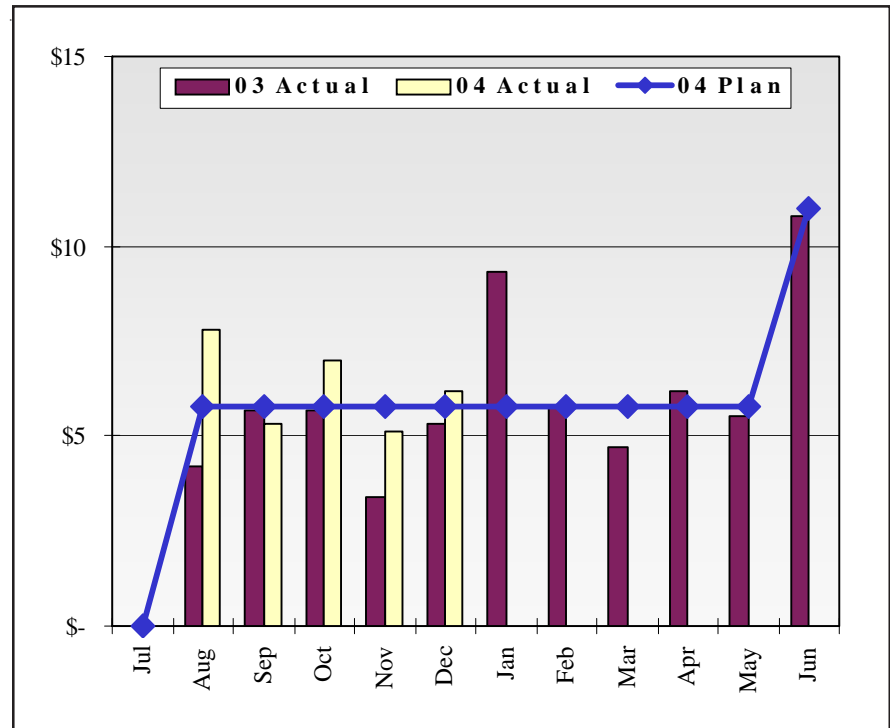
## Category Analysis (Continued)

### ***SWEEPSTAKES TRANSFERS***

Beginning in fiscal year 2000, the Sweepstakes Commission remits all net profits to the Education Trust Fund (ETF) on a monthly basis. In prior fiscal years, for allocation purposes, the funds were transferred to the Department of Education as General Fund restricted revenue for distribution to NH schools.

Profits represent the net sales of on-line games, such as powerball, and instant scratch tickets. Monthly profits are calculated and transferred on the 20th of the following month. During the year-end closing process, adjustments are made to account for June sales in the appropriate fiscal year.

Instant games represents 64% of total sales with an average 26% return. Powerball represents 25% of total sales with a 38% return. In the first half of FY04, the state has already benefited from three large Powerball jackpots of \$261.3 million (7/19/03); \$190.9 million (10/25/03); and \$221.5 million (12/31/03).



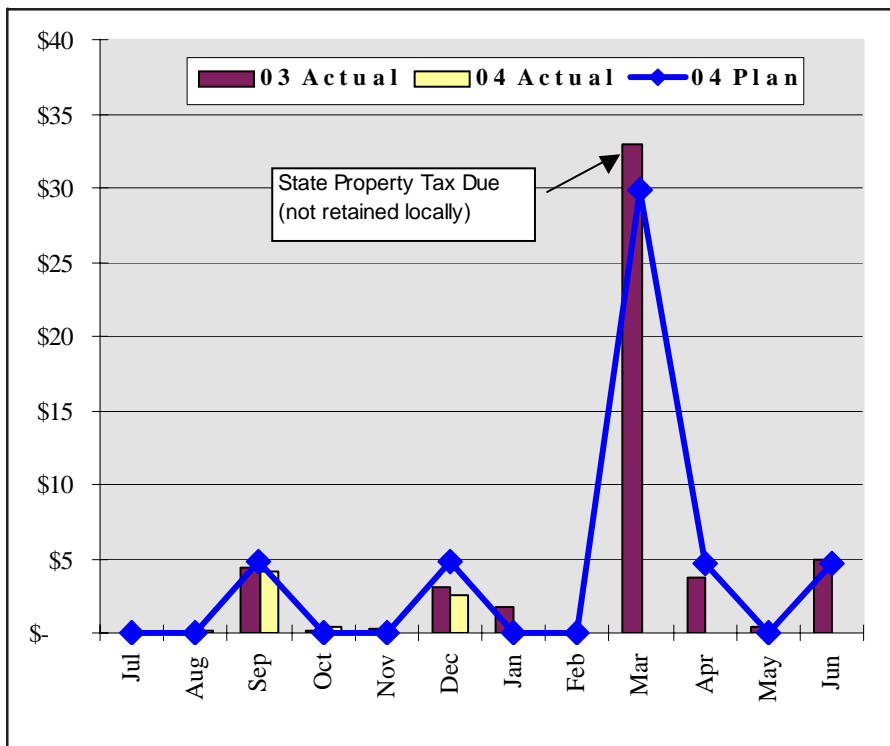
### ***STATEWIDE PROPERTY TAX & UTILITY PROPERTY TAX***

The New Hampshire Supreme Court handed down a decision that requires the State to provide an adequate public education and to guarantee adequate funding. Initially more than 50% of the funding was to be generated by the statewide property tax. Taxes collected are categorized by those retained locally by the assessing community, and those not retained locally. The rate was initially set at \$6.60 per \$1,000.

For fiscal 2003, the rate was decreased to \$5.80 per \$1,000 of assessed property value. For fiscal 2004 and 2005, the rate was further decreased to \$4.92 and \$3.24 per \$1,000, respectively, in accordance with Ch 241,L'03. The fiscal year 2004 plan estimates statewide property tax revenue of \$443.4 million to be retained locally and \$29.9 million not retained locally. Current fiscal year receipts will be recorded in March 2004.

An additional property tax includes assessments on utility property, at the rate of \$6.60 per \$1,000. The utility tax is remitted quarterly and is budgeted at \$19.0 million for the fiscal year.

The chart represents cash flows to the State for the utility tax and the statewide property tax NOT retained locally.



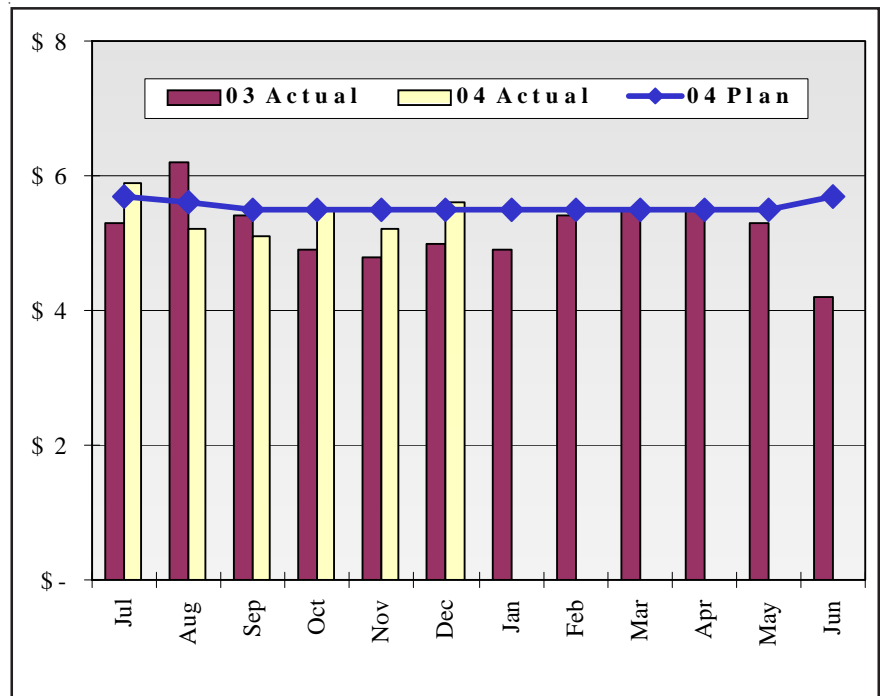
*Amounts in Millions*

## Category Analysis (Continued)

### COMMUNICATIONS TAX

The communications tax is assessed monthly on two-way communication service billings at a rate of 7%. Effective July 1, 2001 the rate was increased from 5.5% to 7%. The first \$12 of the individual's monthly gross charges is exempt. Communication providers remit the tax on or before the 15 of each month. The payment includes an estimated payment for the current month's tax liability and a final payment of the difference between the previous month's estimated payment and final tax liability.

The taxable base has continued to expand with the increased usage of wireless telephones and other communication services. However reduced rates, due to the heavy competition and overcapacity, have offset these volume increases.



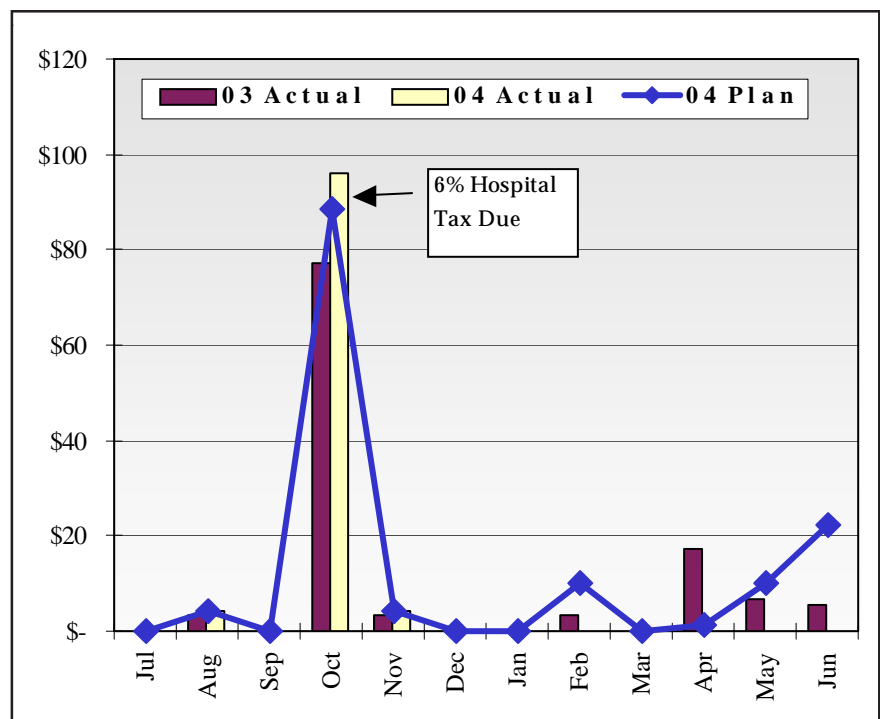
### NET MEDICAID ENHANCEMENT REVENUES

The State's net Medicaid enhancement revenues represent collections from New Hampshire's hospitals. These budgeted revenues include:

- Annual 6% tax charged on every hospital's gross patient service revenues (\$98.1 million);
- Quarterly Medicaid disproportionate share revenues received by the State's New Hampshire Hospital for the mentally ill (\$28.3 million);
- Proportionate share billings (\$12.3 million);
- Recoveries and federal reimbursements for regular and long term care (\$15.5 million).

The State realizes a portion of the net Medicaid enhancement revenue as unrestricted revenue to support general operations of the state.

Pursuant to Chapter 319:1,L'03, the Department of Health and Human Services can accept and appropriate Medicaid revenues in excess of amounts budgeted with approval from the joint legislative fiscal committee, and Governor and Council.



Amounts in Millions